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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, JANUARY 8, 2002

COMMONWEALTH OF VIRGINIA

At the relation of the

STATE CORPORATION COMMISSION

CASE NO. INS020002

Ex Parte: In the matter of
Repealing Certain of the Rules
Governing Variable Life
Insurance

ORDER TO TAKE NOTICE

WHEREAS, § 12.1-13 of the Code of Virginia provides that the Commission shall have the power to promulgate rules and regulations in the enforcement and administration of all laws within its jurisdiction, and § 38.2-223 of the Code of Virginia provides that the Commission may issue any rules and regulations necessary or appropriate for the administration and enforcement of Title 38.2 of the Code of Virginia;

WHEREAS, the rules and regulations issued by the Commission pursuant to § 38.2-223 of the Code of Virginia are set forth in Title 14 of the Virginia Administrative Code;

WHEREAS, the Bureau of Insurance has recommended the repeal of certain rules set forth in Chapter 80 of Title 14 of the Virginia Administrative Code entitled "Rules Governing Variable

Life Insurance," specifically, the rules designated as 14 VAC 5-80-160, 14 VAC 5-80-170, 14 VAC 5-80-180, and 14 VAC 5-80-190;

WHEREAS, the Bureau's recommendation to repeal 14 VAC 5-80-160, 14 VAC 5-80-170, 14 VAC 5-80-180, and 14 VAC 5-80-190 results from the Bureau's adoption of the requirement that the establishment, maintenance, and reporting of reserve liabilities for variable life insurance be in accordance with the National Association of Insurance Commissioners Accounting Practices and Procedures Manual and as provided by §§ 38.2-1311 et seq. and 38.2-3126 et seq. of the Code of Virginia; and

WHEREAS, the Commission is of the opinion that the proposed repeal of 14 VAC 5-80-160, 14 VAC 5-80-170, 14 VAC 5-80-180, and 14 VAC 5-80-190 should be considered with a proposed effective date of March 31, 2002;

THEREFORE, IT IS ORDERED THAT:

(1) All interested persons who desire to comment in support of or in opposition to, or to request a hearing to oppose the repeal of, 14 VAC 5-80-160, 14 VAC 5-80-170, 14 VAC 5-80-180, and 14 VAC 5-80-190, shall file such comments or hearing request on or before March 1, 2002, in writing with the Clerk of the Commission, Document Control Center, P.O. Box 2118, Richmond, Virginia 23218 and shall refer to Case No. INS020002;

(2) If no written request for a hearing on the proposed repeal is filed on or before March 1, 2002, the Commission, upon consideration of any comments submitted in support of or in opposition to the proposed repeal, shall consider the repeal of 14 VAC 5-80-160, 14 VAC 5-80-170, 14 VAC 5-80-180, and 14 VAC 5-80-190 as recommended by the Bureau of Insurance;

(3) AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to the Bureau of Insurance in care of Deputy Commissioner Douglas C. Stolte, who forthwith shall give further notice of the proposed repeal of 14 VAC 5-80-160, 14 VAC 5-80-170, 14 VAC 5-80-180, and 14 VAC 5-80-190 by mailing a copy of this Order to all insurers licensed and authorized to offer any form of life insurance or annuities as defined by §§ 38.2-102 through 38.2-107.1 of the Code of Virginia; and by forwarding a copy of this Order to the Virginia Registrar of Regulations for appropriate publication in the Virginia Register of Regulations; and

(4) The Bureau of Insurance shall file with the Clerk of the Commission an affidavit of compliance with the notice requirements of paragraph (3) above.

CHAPTER 80.

RULES GOVERNING VARIABLE LIFE INSURANCE.

Article V.

Reserve Liabilities for Variable Life Insurance.

~~14 VAC 5-80-160. Reserve liabilities for variable life insurance.~~

~~Variable life policies. Reserve liabilities for variable life insurance policies shall be established under §§38.2-1307 through 38.2-1315 of the Code of Virginia, the Standard Valuation Law, in accordance with actuarial procedures that recognize the variable nature of the benefits provided and any mortality guarantees.~~

~~14VAC5-80-170. Scheduled premium policies.~~

~~For scheduled premium policies, reserve liabilities for the guaranteed minimum death benefit shall be the reserve needed to provide for the contingency of death occurring when the guaranteed minimum death benefit exceeds the death benefit that would be paid in the absence of the guarantee, and shall be maintained in the general account of the insurer and shall be not less than the greater of the following minimum reserves:~~

~~1. The aggregate total of the term costs, if any, covering a period of one full year from the valuation date, of the guarantee on each variable life insurance contract, assuming an immediate $\frac{1}{3}$ depreciation in the current value of the assets of the separate account followed by a net investment return equal to the assumed investment rate; or~~

~~2. The aggregate total of the "attained age level" reserves on each variable life insurance contract. The "attained age level" reserve on each variable life insurance contract shall not be~~

~~less than zero and shall equal the "residue", as described in subdivision 2 a below, of the prior year's "attained age level" reserve on the contract, with any "residue," increased or decreased by a payment computed on an attained age basis as described in subdivision 2 b below.~~

~~a. The "residue" of the prior year's "attained age level" reserve on each variable life insurance contract shall not be less than zero and shall be determined by adding interest at the valuation interest rate to such prior year's reserve, deducting the tabular claims based on the "excess," if any, of the guaranteed minimum death benefit over the death benefit that would be payable in the absence of such guarantee, and dividing the net result by the tabular probability of survival. The "excess" referred to in the preceding sentence shall be based on the actual level of death benefits that would have been in effect during the preceding year in the absence of the guarantee, taking appropriate account of the reserve assumptions regarding the distribution of death claim payments over the year.~~

~~b. The payment referred to in subdivision 2 of this section shall be computed so that the present value of a level payment of that amount each year over the future premium paying period of the contract is equal to (A) minus (B) minus (C), where (A) is the present value of the future guaranteed minimum death benefits, (B) is the present value of the future death benefits that would be payable in the absence of such guarantee, and (C) is any "residue," as described in subdivision 2 a above of the prior year's "attained age level" reserve on such variable life insurance contract. If the contract is paid up, the payment shall equal (A) minus (B) minus (C). The amounts of future death benefits referred to in (B) shall be computed assuming a net investment return of the separate account which may differ from the assumed investment rate and/or the valuation interest rate but in no event may exceed the maximum interest rate permitted for the valuation of life contracts.~~

~~3. The valuation interest rate and mortality table used in computing the two minimum reserves described in subdivisions 1 and 2 above shall conform to permissible standards for the valuation of life insurance contracts. In determining such minimum reserve, the company may employ suitable approximations and estimates, including but not limited to groupings and averages.~~

~~14VAC5-80-180. Flexible premium policies.~~

~~For flexible premium policies, reserve liabilities for any guaranteed minimum death benefit shall be maintained in the general account of the insurer and shall not be less than the aggregate total of the term costs, if any, covering the period provided for in the guarantee not otherwise provided for by the reserves held in the separate account assuming an immediate $\frac{1}{3}$ depreciation in the current value of the assets of the separate account followed by a net investment return equal to the valuation interest rate.~~

~~The valuation interest rate and mortality table used in computing this additional reserve, if any, shall conform to permissible standards for the valuation of life insurance contracts. In determining such minimum reserve, the company may employ suitable approximations and estimates, including but not limited to groupings and averages.~~

~~14VAC5-80-190. Fixed incidental insurance benefits.~~

~~Reserve liabilities for all fixed incidental insurance benefits and any guarantees associated with variable incidental insurance benefits shall be maintained in the general account and reserve liabilities for all variable aspects of the variable incidental insurance benefits shall be maintained~~

~~in a separate account, in amounts determined in accordance with the actuarial procedures
appropriate to such benefit.~~